CATALYST
FUND MANAGERS

GLOBAL LISTED REAL ESTATE REPORT
JUNE 2019

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GLOBAL LISTED REAL ESTATE REPORT

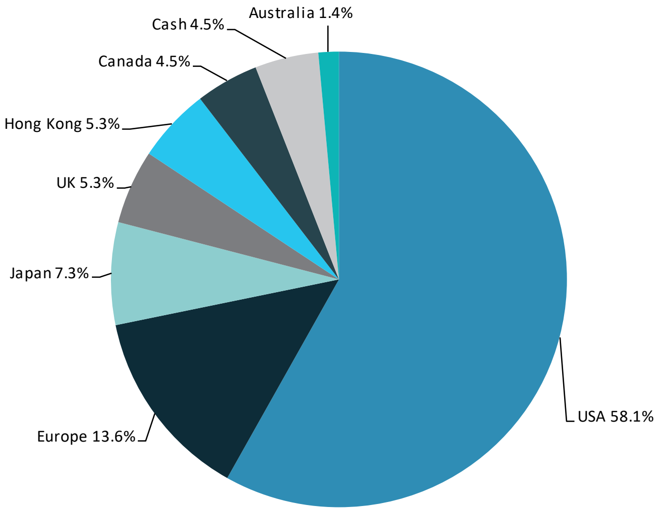
Our fund benchmark, the FTSE EPRA/NAREIT Developed Net Rental Index, recorded a net total USD return of 1.09% in June. The best performing listed real estate market was Singapore, which recorded a total USD return of 9.83% for the month. Europe ex. the UK recorded the lowest total USD return of -0.94%.

This monthly report will focus on the merits of global listed real estate and why we believe it has a valuable place in an investor's portfolio from a risk-adjusted return perspective, particularly later in the economic cycle and during periods of heightened uncertainty.

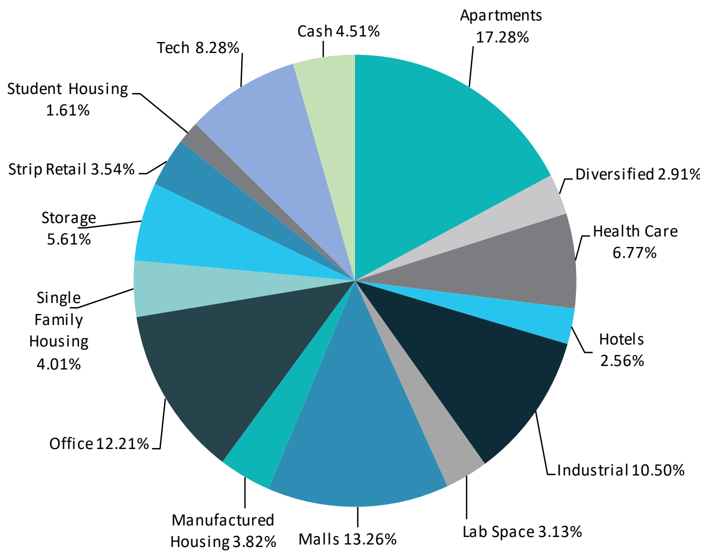
Firstly, access to listed global real estate provides strong diversification across geographies; real estate sub-sectors; lease durations and lease structures; as well as diversification across multiple tenant types.

The following diagrams show the split as at the end of June 2019 from a regional and sectoral basis for our Catalyst Global Real Estate UCITS Fund that focuses on real estate in global developed markets:

FUNDS GEOGRAPHIC ALLOCATION



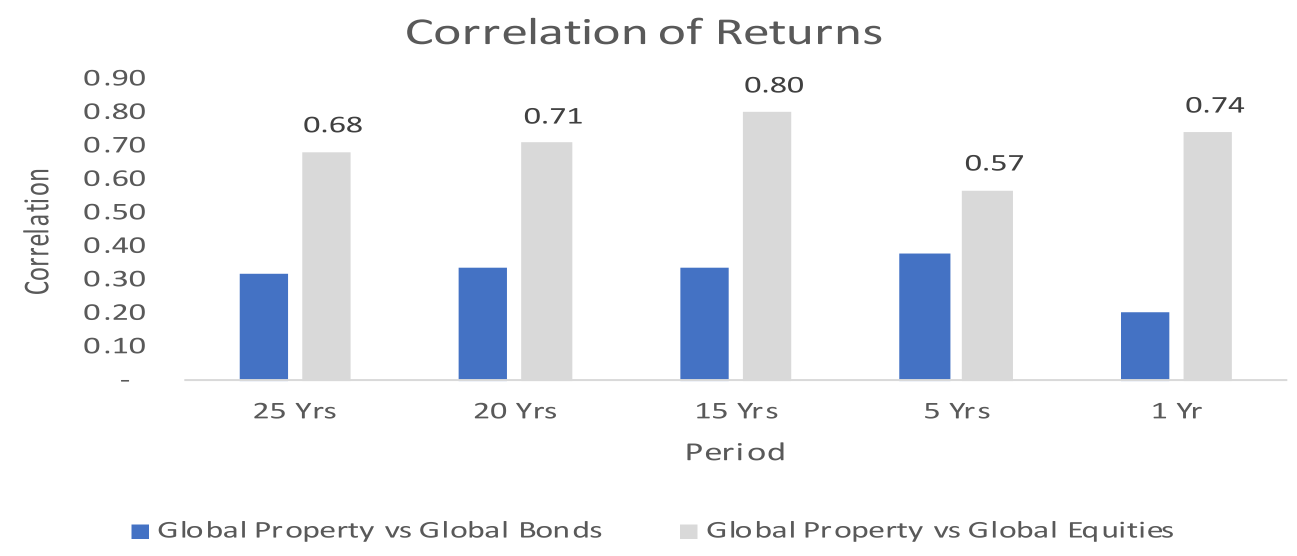
FUNDS SECTORAL ALLOCATION



While the local South African listed property sector has approximately 60% exposure to retail, 25% to office, and 15% to industrial, it is evident from the above graph that this is certainly not the case offshore. Many sub-sectors are available globally that are not an option in South Africa, such as lab space; manufactured housing; single family housing; and technology property stocks, such as data centres and cell towers.

There is an additional natural diversification from investing across numerous sub-sectors. For example, e-commerce growth is a tailwind for industrial and logistics warehouses yet poses potential headwinds for certain retail properties. Similarly, single family housing and apartments cater towards different demographic preferences that change over time. The investable universe in the global market is also much larger than that of South Africa and offers optionality between sub-sectors as well as between stocks within the specific sub-sectors.

Furthermore, returns from this global asset class have a historically low correlation to global bonds and global equities, thus adding to the effective ability to diversify. Global property's correlation to global bonds has consistently been around 0.35 for the last 25 years. And while the correlation to global equities does change depending on the current economic cycle, particularly increasing during large economic downturns, such as during the Global Financial Crisis (GFC), the correlation with global equities has been around 0.7 for the last 25 years. These lowered correlations are appealing particularly during times of heightened global uncertainty.



Another appealing factor during uncertain economic times and times of lowered global growth is the stability of real estate company earnings over time, underpinned by revenue received from long term contractual leases. While listed real estate prices may be volatile due to capital markets, underlying earnings are more stable than general equities over cycles. However, it is important to differentiate between real estate sub-sectors when it comes to earnings stability. For example, office leases will be much longer than a hotel lease (that is essentially a daily lease) and therefore office earnings will be less reactive to changes in the economic environment in the short term and provide more consistent cash flows earned from properties held for renting. This is another reason why we tend to favour companies that buy, develop and hold properties for renting ("renters") as opposed to those that develop to sell ("developers"), as developers often complete developments at incorrect times of the cycle and do not possess the stable earnings stream enjoyed by renters.

Higher and consistent dividends yields attached to real estate stocks are also attractive in low growth and uncertain environments, given the fact that REITs must pay predominantly all their taxable earnings as distributions to shareholders. This together with the stability of earnings allows for more consistent dividend payments over time as compared to general equities.

Global real estate companies are overall in a better position than before the GFC. On average, balance sheets are stronger, Loan-to-Value (LTV) ratios are healthy at around 30%, debt sources are well diversified, credit ratings are good, and most management teams have taken advantage of low interest rates to fix out long term debt at favorable rates and increase maturity durations. Similarly, during this period, most management teams have taken advantage of high asset values and a strong demand for real assets and have sold large portions of their non-core assets to improve overall portfolio qualities.

Lastly and as we have mentioned before, by investing in global listed real estate, you are gaining access to some very strong management teams with the necessary expertise to best navigate challenging environments; who are aligned to create value for shareholders; have cost of capital advantages; operational expertise; and platform. For more information on the importance of management, please refer to our April monthly report.

We encourage you to engage directly with us to discuss current market fundamentals, property themes and our various solutions that grant you access to the global developed listed real estate market. We have two solutions in particular: our Ireland domiciled UCITS Global Fund that is US dollar denominated, as well as our Feeder Fund that is a South African rand fund feeding directly into our offshore fund.

Overall, real estate fundamentals remain healthy, mainly due to manageable supply levels relative to demand. The estimated forward FAD (Funds Available for Distribution) yield for the sector is 4.59%, and medium-term growth prospects are decent. Listed real estate has performed well this year and, on the whole, appears to be fairly priced given our USD real return requirement of 5.00% and current global bond yields. Within the real estate universe, more attractively priced opportunities exist in specific real estate sectors and stocks.

INVESTMENT ANALYST

GLOBAL LISTED PROPERTY REVIEW

Country	Market Cap USD Million	10 Year Govt Bond Yield	Current Dividend Historical Yield	Debt % Local Currency
US	882 520	2.03%	3.66%	29.22%
Canada	49 326	1.47%	4.01%	42.94%
Total North America	931 846	2.01%	3.68%	29.90%
UK	72 486	0.83%	3.87%	28.29%
Continental Europe	239 455	-0.12%	4.17%	33.59%
Total Europe	311 941	0.14%	4.09%	36.95%
Japan	148 808	-0.14%	2.70%	36.74%
Australia	45 776	1.34%	5.11%	29.84%
Hong Kong	83 894	1.42%	3.32%	12.92%
Singapore	43 051	2.00%	4.45%	35.35%
Total Asia	321 529	0.64%	3.44%	30.99%
Total	1 565 316	1.43%	3.71%	31.37%

Region	JUNE 2019 Return % (USD)	JUNE 2019 Return % (Rand)	YTD Return % (USD)	YTD Return % (Rand)
Global Investors Index (NTR)	1.09%	-2.40%	14.47%	12.22%
North America	1.23%	-2.26%	16.82%	14.52%
Europe	-0.94%	-4.37%	8.96%	6.82%
Asia ex Australia	3.30%	-0.27%	16.70%	14.40%
Australia	3.71%	0.13%	8.20%	6.07%
SA Listed Property Index	5.9%	2.20%	8.17%	6.04%

INFORMATION SOURCE AND METHODOLOGY

Data:	Bloomberg unless stated otherwise
Calculations:	Catalyst Fund Managers
Clean Price:	Adjusts the closing price for distribution accrued since last distribution date
Rolled yield:	Time weighted current 12 month historic distribution divided by the clean price
Debt %:	These are loan to value numbers.
Date:	All data taken on 1 July 2019
Universe:	Companies included are only those companies that form part of the Catalyst core universe

CATALYST
FUND MANAGERS

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